

To: Peter Mandelson [REDACTED]
From: Jeffrey Epstein
Sent: Sun 3/20/2011 1:43:59 PM
Subject: Re: Fw:

very clever,, but lacks the emotional piece. . a house is never a good economic investment, capital needs, use of funds except in a fast growing market. the emotional security it gives you however lets you make more money than you would have otherwise, .. you can always rent, its the best economic decision if looked at in a vacuum. just like james buyint the girl a flat. no good economic reason. however it buys him peace.

On Sun, Mar 20, 2011 at 6:35 AM, Peter Mandelson <[REDACTED]> wrote:

Ignore affectionate language...

----- Original Message -----

From: James Palumbo (MSHK) [mailto:[REDACTED]]
Sent: Sunday, March 20, 2011 08:50 AM
To: Peter Mandelson BT
Subject:

Mr.Grumpy, Mr.Frumpy. Mr. Rumple - Rumple Stiltskin. Grrh, grrh, grrh, let's take this from the top.

There are 3 main points to consider.

1. What's the state of the world?

My view continues to be bearish - Japan, Libya, oil price, UK Q4 GDP decline, US debt and unemployment, global inflation. I think there's now a good chance of a double dip recession and another shock of some sort - bank failure, sovereign debt crisis - Spain? What would be the result of this? Japan style stagnation on one end of the scale, all the way through to genuine turmoil on the other - economic collapse, riots. As you know I've built a compound in Thailand against the latter possibility. You need to check this view with Natty Nat Nat Nat Nat, Lazards, and others you trust. Generally my stance would be cautious.

2. How might this effect global property prices?

Unclear. The top end of the London market is currently strong because the city is seen as a safe haven against trouble in the middle east. But I don't think Candy & Candy are selling much of their Number One Knightsbridge development. Similarly I bought my pussy cat a flat in a fabulous new development in Bangkok, the Sukothai residence, behind the Sukothai hotel. It cost £1.5m which is a lot for Thailand and I believe sales are sluggish at best. I don't know how strong the market is in Rio, what the local factors are etc. I speculate there's quite a lot of wait and see at the top end of global residential property markets.

3. What's best practice for financing a property purchase?

Well obviously buying for cash is best, but if you can't do this I'd be very wary about borrowing more than 50% as a point of principle. You then need to work out in detail how the financing is going to work. What are the monthly interest payments? What happens if unforeseen circumstances reduce your income? By how much does your income have to reduce to threaten the payments? What's the sensitivity to UK interest rate rises and currency fluctuations? (Sterling depreciated by 25% against the baht as I was making the stage payments for the Cat making the property about £250,000 more expensive). What's the plan for re-paying the capital? What's the absolute downside in security terms? Can the lending bank foreclose on other assets and what would be the effect of this?

It's also necessary to be absolutely clear about total costs - ie, taxes on purchase, agents costs, total realistic refurbishment costs, including contingency, on going taxes, service charge and other running costs. These then need to be bundled into a composite number and the financing flows from this.

So say in the case of the flat you're looking at the purchase price is £1.7m, and you're all in for £2m. (This feels low but I'm just using it for example). Let's say you put up £500,000 cash and go to HSBC for £1.5m, you then need to run all the sensitivities I've referred to above based on this. It feels like quite a commitment.

Again, you must take other advice and make up your own mind, but you've seen what happens when people over extend their borrowings against property. That's why, irrespective of the attractiveness of the property and the apparent security of your current income, I always follow the 50/50 rule of thumb, and even then the detailed financing battle drill needs to be performed.

I hope this is helpful. Call if you'd like. Big kiss.

Reception: [REDACTED] Fax: [REDACTED]
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